



**LISBOA  
SCHOOL OF  
ECONOMICS &  
MANAGEMENT**

**MESTRADO**

**DESENVOLVIMENTO E COOPERAÇÃO INTERNACIONAL**

**TRABALHO FINAL DE MESTRADO**

**DISSERTAÇÃO**

**CHINESE SPECIAL ECONOMIC ZONES AND THE DEVELOPMENT OF  
AFRICAN COUNTRIES – THE MOZAMBIQUE CASE**

**HAO ZHANG**

**SETEMBRO – 2014**



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- The Mozambique Case  
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**Abstract**

The first well-developed Special Economic Zones (SEZs) are indispensable in the rapid economic growth of China. Thanks to the growth driven by the SEZs and by other factors under the development of international context, China is gaining more physical capital. The Chinese Government's policy of "going out" encourages more Chinese companies to invest more in the emerging markets, like Latin America, especially Africa. In the last 10 years, Mozambique's economy has grown steadily at an impressive rate of above 7 percent per year, driven by the service sector, agriculture and newly developed industry sector, especially extractive industry. This pace is expected to continue. The Chinese Foreign Direct Investment (FDI) in Mozambique is increasing and the bilateral trade and cooperation are more and more close and diversified. After analyzing the Chinese SEZs experience and lessons, and other development models, I will analyze some dimensions based on the above. I am going to research, in the context of Africa, if Mozambique has the same factors of success as the Chinese Special Economic Zones and other economic development models.

Keywords: Special Economic Zones, China, Africa, Mozambique, Factors of Success

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**Resumo**

As primeiras Zonas Económicas Especiais (ZEEs) bem estabelecidas são indispensáveis no rápido crescimento económico da China. Graças ao crescimento impulsionado pelas ZEEs e outros factores no âmbito de desenvolvimento internacional, a China está a ganhar mais capital. A política de "*Going out*" do Governo chinês incentiva mais empresas chinesas a investir mais em mercados emergentes, como a América Latina, especialmente em África. Nos últimos 10 anos, a economia de Moçambique tem crescido firmemente a um ritmo impressionante de mais de 7 por cento ao ano, impulsionado pelo sector dos serviços, agricultura e sector da indústria recém-desenvolvida, especialmente da indústria extractiva. Este ritmo deveria continuar. O Investimento Directo Estrangeiro (IDE) chinês em Moçambique está a aumentar e o comércio e a cooperação bilateral estão cada vez mais estreitos e diversificados. Depois de analisar a experiência e as lições das ZEEs da China, e outros modelos de desenvolvimento, vou analisar algumas dimensões com base no acima exposto. Vou investigar, no contexto da África, se Moçambique tem os mesmos factores de sucesso que as Zonas Económicas Especiais da China e outros modelos de desenvolvimento económico.

Palavras-chave: Zonas Económicas Especiais, China, África, Moçambique, Factores de Sucesso

## **1. Introduction**

### **1.1 Importance of the topic**

The Chinese Government's policy of "going out" encourages Chinese companies to pay more attention to invest in the emerging markets, like Latin America, especially Africa. Breeded during the Government of Deng Xiaoping, deepened during the mandate of Jiang Zemin and developed by President Hu Jintao, the "going out" policy is becoming more and more relevant and mature. It is revealed in the recent visit of President Xi Jinping and Prime Minister Li Keqiang to the African and Latin American countries. This policy turns out to be a win-win policy. In the Chinese perspective, it contributes greatly to the establishment of more and more Chinese industrial and trade zones overseas. The zones overseas not only help increase demand for Chinese-made machinery and equipment, reduce investment entry and operating costs, but also assist China's efforts to boost industrial restructuring at home and nurture companies to move up the value chain. They also provide a stage for less experienced small and medium-sized enterprises (SMEs) overseas. For the African countries, it is a good opportunity to learn from the experience and lessons from the Special Economic Zones (SEZs) established in China.

The SEZs have proved to be particularly relevant for Chinese development in the past 35 years, since created in 1979; they played a decisive role for development of cities like Shenzhen, Zhuhai, Xiamen and Shantou. SEZs are geographically delimited areas, offering certain incentives that aim at overcoming investment barriers at a national level like preferential tax. They vary in size and scope and operate under different regimes such as Economic and Technical Develop Zones (ETDZs), Free Trade Zones (FTZs), Export Processing Zones (EPZs), Hi-Tech Industrial Development Zone (HIDZ) and

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Industrial Zones. SEZs are development tools that in several countries have helped to stimulate economic development by attracting local and foreign investment, enhancing competitiveness, and facilitating export-led growth. At the beginning the Chinese SEZs began by being EPZs with export-oriented production, normally with low-value added products like apparel, footwear, toys, electronic goods, but gradually they progressed and started to produce high-value added products by introducing high-technologies and other strategies.

China learned the SEZ experience from Shannon, Ireland and learned from Japan their “Export-Oriented Growth Model”, and practices the model firstly in the SEZs. As proved to be successful, according to the GDP growth of these cities, Chinese government is now trying to coordinate also with Africa with the guidance of this policy. In 2006, the development of zones overseas was given significant priority, as the Chinese Government announced at the Forum on China-Africa Cooperation (FOCAC) its intention to establish up to fifty special economic cooperation zones abroad. The zone projects are still in early stages of implementation. MOFCOM reported that as of June 2010, a total amount of US\$700 million had been invested by Chinese companies in the construction of 16 zones. MOFCOM also reported that over 200 companies were operating in these zones and the initiative had generated investments worth US\$2.5 billion. (World Bank, 2011)

## **1.2 Objective of the dissertation**

This paper aims to characterize the Chinese SEZs and its contributions to Chinese economic development after analyzing the factors of success and lessons learned, and the discussion of the development model. By comparing the factors that contribute to the success in China and other development models, I would like to research, in the



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context of African countries, if Mozambique and its SEZs have the same factors of success.

So the research questions in this dissertation are:

1. What characterizes the Chinese SEZs model?
2. Do African countries and its special economic zones have these factors of success?

## **2 Literature Review**

### **2.1 The establishment of SEZs in China and their contributions to Chinese economic development**

The situation of Chinese economy in 1978 called urgently for a systematic reform after the ten-year Cultural Revolution (from May of 1966 to October of 1976) that left the country in absolute poverty. In 1980, it was a rural country with 69% of the population employed in agriculture that only generated 30% of the income; the per capita income was in that time of 616 RMB in rural areas and the Foreign Direct Investment (FDI) and the foreign trade were insignificant (OECD, 2002). To answer this urgent call, Deng Xiaoping, chief architect of the “Reform and Open-up” Policy, launched an economic reform in 1978. At that time, the reform was not well received by all as not everybody saw the foresight of this reform. Because since the creation of the People’s Republic of China, although with different phases, the economic model was always a controlled and centralized planned economic model. Cautious in a pragmatic way, Deng decided to test the efficacy of market-oriented economic in a centrally planned economy and controlled environment. Due to lack of experience, the government decided to “open” gradually from the coastal cities to internal China. Therefore the first SEZs were established in the strategic located cities like Shenzhen. The choice of Shenzhen was especially strategic because of its location across a narrow river from Hong Kong, the principal area from

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which China could learn capitalist modes of economic growth and modern management technologies. The four SEZs in coastal areas of Guangdong and Fujian, have a long history of contact with the outside world, near Hong Kong, Macao and Taiwan. For example, Guangdong province is one of the biggest hometowns of Chinese overseas.

In November 1978, farmers in Xiaogang, a small village in Anhui Province, pioneered the “contract responsibility system,” which was subsequently recognized as the initial impetus for far-reaching and ultimately successful rural reforms in China. The following month, the Third Plenum of the 11<sup>th</sup> Congress of the Chinese Communist Party adopted the “Reform and Open-up” Policy, and in July 1979, the Party Central Committee decided that Guangdong and Fujian provinces should take the lead in conducting economic exchanges with foreign countries and implementing “special policies and flexible measures.” By August 1980, Shenzhen, Zhuhai, and Shantou within Guangdong Province were designated as Special Economic Zones (SEZs), followed by Xiamen in Fujian Province in October 1980. The four SEZs were quite similar, all comprised large areas within which the objective was to facilitate broadly based, comprehensive economic development, and enjoyed special financial, investment, and trade privileges. They were encouraged to pursue pragmatic and open economic policies that would serve as a test for innovative policies that, if proved to be successful, would be implemented across the country. (Yeung, Lee and Kee, 2009) Since their establishment in 1980 the SEZs have made critical contributions to China’s success and rapid economic development. In 2006, the five initial SEZs accounted for 5 percent of China’s total real GDP, 22 percent of total merchandise exports, and 9 percent of total FDI inflows. At the same time, the 54 national ETDZs accounted for 4.5 percent of total GDP, 15 percent of exports and 21.6 of total FDI inflows (Table I).

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**Table I Performance of Initial Five SEZs and ETDZs, 2006**

**Table 1.3 Performance of Initial Five Special Economic Zones and National Economic and Technological Development Zones, 2006**

<i>National Indicator</i>	<i>SEZs</i>	<i>ETDZs</i>	<i>China</i>
Total employment (millions)	15	4	758
as % of China total	2.0	0.5	100
Real GDP (RMB 100 millions)	9,101	8,195	183,085
as % of China total	5.0	4.5	100
Utilized FDI (US\$100 millions)	55	130	603
as % of China total	9.1	21.6	100
Merchandise exports (US\$100 millions)	1,686	1,138	7,620
as % of China total	22.1	14.9	100
Total population (millions)	25	—	1,308
as % of China total	1.9	—	100

Source: National Statistics Bureau 2006.

Note: — = not available.

Source: Zeng (2011)

The SEZs are also a major platform for attracting FDI and hosting new and high-technology firms to China, especially in the HIDZs and ETDZs, being in fact the engines of China's high-tech industries and contributing greatly to its technology upgrade, as well as adoption of modern management practices. Being successful in the first SEZs, gradually the Chinese government extended it to the inland regions, sought to focus less on fundamental industries and more on technology-intensive industries.

The SEZs, most of all, successfully tested the market economy and new institutions and established role models for the rest of the country to follow. Free zones have existed for a long time. They were originally established to encourage entrepôt trade, and mostly took the form of citywide zones located on international trade routes, like Gibraltar (1704), Singapore (1819), Hong Kong (China; 1848), Hamburg (1888), and Copenhagen (1891). The first “modern zone” was established in Ireland (Shannon International Airport) in 1959, offering investors secure access to European markets, with preferential tax. The major purpose of the Shannon EPZ is to promote export industries, taking advantage of local labor and special trade and tax incentives provided.

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It is the Shannon-type zone that many developing countries seem to have been interested in emulating, especially since 1970. (Sit, 1985). Since then, a variety of different zones were set up. According to FIAS report in 2008 (World Bank, 2008), special economic zone is a generic term that encompasses the recent variants of the traditional commercial zones. The principles incorporated in the basic concept of a special economic zone include:

- Geographically delimited area, usually physically secured (fenced-in)
- Single management/administration
- Eligibility for benefits based upon physical location within the zone
- Separate customs area (duty-free benefits) and streamlined procedures.

This generic special economic zone concept has evolved over time, resulting in a large variety of zones with differing objectives, markets, and activities, including: Free Trade Zones (FTZ), Export Processing Zones (EPZs) and Economic and Technological Development Zones (ETDZ). FTZs, also known as commercial free zones and free commercial zones, are small, fenced-in, duty-free areas, offering ware housing, storage, and distribution facilities for trade, transshipment, and re-export operations, located in most ports of entry around the world. A leading example is the Colon Free Zone in Panama. EPZs, industrial estates offering special incentives and facilities for manufacturing and related activities, aim mostly at export markets (World Bank, 2008). The first zone to bear the name of EPZ was Ireland's Shannon. The idea of "Economic and Technological Development Zones (ETDZ)", or simply the "Development Zones" first began after the "Open-up" in China in 1979-1980. "The state-level ETDZ is a relatively small piece of land carved up in the coastal cities and other open cities. It attaches great importance to improve hard and soft investment environment and adheres

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to the policy of "mainly developing the high-tech industry, focusing on industrial projects, absorbing foreign fund and building up export-oriented economy". Serving as "windows and bases" in the fields of opening-up, capital attraction, export enlargement, hi-tech development and regional economy promotion, it now becomes a powerful engine in developing regional economy and plays an important role in adjusting regional economy and industry structure. As a matter of fact, The ETDZs have scored great achievements and become the hot places for foreign investment and main drivers of export." (NETDZs site, 2014). By April 2010, the number of state-level ETDZs increased to 69 from 14 by the end of 1988 (China Knowledge Online, 2009). With the development of these economic zones, it has created a growth (national GDP) in China's economic by creating more job opportunities and encouraging on FDI.

Most of the SEZs in China, though differing in performance and speed, are quite successful. Together, they have formed a powerful engine to drive China's reform process and economic growth.

**2.1.1 Reflections on the Experiences of China's SEZs: Major Factors for Success and Lessons Learned**

Less developed countries (LDC) now look admiringly at China's economic modernization and development and wonder what experience and lessons they may learn from the Chinese success. According to Zeng (2011) and Yeung, Lee and Kee (2009), the SEZs, by the above data, accelerate the pace of China's economic revitalization, by the following factors:

- a) **Strategic location advantages.** The first SEZs of China are all located in the coastal cities. It has been taken into consideration that these cities may have either better links to the international market, or better historical trade relations and experience;

for example, Guangdong province is one of the biggest hometowns of Chinese overseas. From then on, infrastructures have been built, and capital, high-technology, as well as management skills have also been acquired. The location advantage, close to Hong Kong, Macao, Taiwan, combined with the advantage of labor, allowed the Pearl River Delta region to emerge relatively quickly as one of the world's major manufacturing bases. It also works as a platform between inland regions and the world.

- b) **Foreign Direct Investment (FDI) and the Chinese diaspora.** The strategic locations and later-built infrastructures of the SEZs have been contributing to attract more FDI. Due to the maritime contacts of Guangdong province, it had long been an area of emigration as well as a crucible for bringing western ideas into China. The Chinese diaspora also contributed to attracting capital investment, technologies, and management skills, playing a very important role. At the same time that the SEZs were opening up in the 1980s, Hong Kong, Macao, and Taiwan were also beginning to upgrade their industrial structure and transfer out their labor-intensive manufacturing sectors. The cheap labor and more and more well-built infrastructure in the SEZs, as well as the Open Door policies coupled with generous incentives, provided a great opportunity for FDI to flow into China from the diaspora. Given the culture, language, and location advantages, such investments were dominant for the early SEZs.
- c) **Preferential policies and institutional autonomy.** To encourage investment of national and foreign firms, the SEZs had in place various preferential policies, including preferential fees for land or facility use, reduced duties on imports, rapid customs clearance, flexibility in hiring and firing workers, among others. In addition,

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the SEZ governments are able to make timely adjustments to relevant policies and regulations based on business needs and market conditions, as well as on development stage. Favorable policies were also in place to attract skilled labor, including the overseas diaspora, like education for their children, social benefits for the elders, etc. The central government had tried to decentralize its power and helped creating an open and conducive legal and policy environment for the SEZs. At the same time, the local governments made a great effort to build a sound business environment. They not only put in place an efficient regulatory and administrative system but also good infrastructure. These factors were critical to attracting the right talent.

- d) **Tenacious determination and willing of performance from the central government to the local government.** The determination of Chinese government to make great changes in the economic sector ensured a stable and supportive macro-environment for the “Reform and Open-up” policies to prevent political opposition and temporary setbacks from undermining the economic experiment with the SEZs. The government has been playing a very important role at various levels, from building better infrastructure to technology innovation introduction. In addition, the local government has tried to use the given special powers to create an efficient regulatory system and a conducive business environment, making the SEZs attractive to investors. Such interventions are quite necessary and appropriate. This is one of the most important factors for the success. No matter whatever are other conditions, the government always has to play an indispensable role in the reform.

The SEZs are seen as the laboratories to test the new policies so that the policies can be adjusted in time according to the result of application. Serving as examples, despite

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great disparities in performance and speed of growth, the SEZs compete between them to have a better result or at least better demonstration effect. Such a competition puts great responsibility on the government officials. So they all have to plan clear goals and program in targets for GDP growth, employment, exports, and FDI. The above factors are not necessarily all that have contributed to their success, but they do capture some of the key elements that might be useful to other developing countries. According to Zeng (2011), the lessons to be learned from the Chinese SEZs are:

- a. **The policies and development model need to be adjusted according to the stage of development.** For instance, at the beginning of the Opening Policy, to attract FDI, the preferential tax policies were considerably generous. But with the increasing growth of FDI flows, the tax policies were not timely adjusted gradually according to the development phase. In terms of development model, with the increasing environmental challenges recently, greater emphasis is now placed on “green” and social development. In the medium and long term, the sustainable development has to be put on the agenda of model shift. The development should be transformed from labor-intensive to technology-intensive, by increasing investment, building R&D infrastructure, and offering special incentives to attract high-tech firms and high-quality scientists.
- b. **Avoid unnecessary waste of resources and excessive pursuit of GDP growth in number.** The state invests much capital during the establishment of SEZs in several areas. The inspection system was not very strict with the investments. So some local governments took advantage of the goodwill and generosity of the central government, and asked for excess amount of money that they actually didn’t need, causing the unnecessary waste of state capital. Under the pressure of competition



among the SEZs in terms of economic growth, some local authorities' pursuit blind economic growth and employment rate increase only by excessive infrastructure construction. Instead of seizing the opportunities to invest in the sectors in need, ignoring their own constraints and capacity, they invest in speculative construction.

The world development community should pay close attention to the lessons and experience provided by China. However, there is no "one size fits all" approach. All the experiences and lessons need to be adapted to the particular situations. Meanwhile, China did not simply replicate models for reform of the others but instead explored its own way toward a market economy, incorporating characteristics that fit China's unique situation. Such pragmatism is crucial for achieving any successful reform.

## **2.2 The dynamic discussion of the model**

Economic growth theory is an important branch of economics. It studies the economic system, the quantitative relationship between the influencing factors of economic growth. There are many models of economic growth and development, for example, the transition economic model of growth, the Harrold-Domar model, the Lewis structural change model, etc. "One fits all" economic model doesn't exist. The adaption of the economic models also varies according to the situation, or initial conditions of different countries. In terms of development model of China, the economists have different opinions. According to Heinberg (2011), the fundamental economic model that China has depended on for the past couple of decades consists of producing low-cost export goods to fund investment at home. Ming Zhang (Zhang, 2011) says that there are two main features in China's traditional development model: investment-driven and export-oriented. To know better the development of SEZs and export-oriented growth in China, it is necessary to know some development models.

### **2.2.1 Definition of transition economy and the two transition models**

A transition or transitional economy is an economy which is changing from a centrally planned economy to a market economy (Feige, 1994). The transition process is usually characterized by the changing and creation of institutions, particularly private enterprises; changes in the role of the state, thereby, the creation of fundamentally different governmental institutions and the promotion of private-owned enterprises, markets and independent financial institutions (Falke, 2002). These include economic liberalization, where prices are set by market forces rather than by a central planning organization. In addition, trade barriers are removed, there is a push to privatize state-owned enterprises and resources, state and collectively run enterprises are restructured, and a financial sector is created to facilitate macroeconomic stabilization and the movement of private capital. The transition model has been applied in China and some Eastern European countries, among others. Due to the different initial conditions, countries applied different transition model. China and Vietnam adopted a gradual transition model; however Russia and some other East-European countries used a more aggressive and quicker paced model of transition. A central feature of transition is to build market-institutions—legal system, private property, financial system, etc.

The European Bank for Reconstruction and Development (EBRD) developed a set of indicators to measure the progress in transition. The classification system was originally created in the EBRD's 1994 Transition Report, but has been refined and amended in subsequent Reports. The EBRD's overall transition indicators are:

- Large-scale privatization
- Small-scale privatization
- Governance and enterprise restructuring

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- Trade and foreign exchange system
- Banking reform and interest rate liberalization
- Infrastructure reform, legal and institutional reform

The initial conditions referred above are:

- Length of socialist period
- Dimensions & geographic location in proximity to West Europe
- Per capita income
- Economic development - useful index is the percent of the labor force in agriculture versus heavy industry
- Trade experience (competitive forces; level of economic openness)
- Resource bases

There are two types of transition models, the Big-Bang, also called shock therapy, and the Gradualism (slow and steady), also evolutionary approach. Big Bang is defined by Aslund & et al (1996) as a case in which a country tries to implement a maximum of reforms in a short period of time. This transitional model involves moving quickly to eliminate the old order and to replace it with new organizational and policy arrangements. Normally, the measures taken by the Big Bang therapy are all at once and painful but causes immediate, sharp economic collapse. Poland, other Central European countries (Hungary, Czech, Slovenia, and Slovakia) chose the Big Bang model.

The gradual model emphasizes complexity of organizations; process of learning and adaptation. It takes more time but is less painful, avoids collapse and excessive costs (Dewatripont and Roland, 1992a; Dewatripont and Roland 1992b). Contrary to the shock therapy “overnight to do all”, gradualism also allows trial-and-error and midcourse adjustment. Furthermore, the government can gain incremental credibility for

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the reforms when reforming at a slower pace. When outcomes of reforms are uncertain to individuals, a gradual or sequential approach splits the resistance force and can therefore increase the chances for survival of the program (Roland, 1994; Wei, 1997).

### **2.2.2 The gradual transition model and the Chinese SEZs**

China, different from the former Soviet republics, including Russia and Ukraine, or the Eastern European countries, has adopted the gradual and evolutionary approach to the transition since the reform started at the end of 1978. This approach is partial, experimental, and especially without large-scale privatization. The Chinese approach didn't follow any pre-determined blueprint. China has become the fastest growing country in the world ever since the transition started. China has also successfully controlled the inflation in an acceptable level. Some economists attribute China's success to their unique initial conditions, namely, a large agricultural labor force, a rather centralized economic system, and, large amount of rich Chinese overseas. The shock therapy, which attempts to eliminate the institutional distortions simultaneously, causes economic collapse due to the fact that this transition approach neglects the endogenous nature of those distortions. In the case of China, the gradual approach achieves dynamic growth because this approach continues to provide protections and subsidies to the nonviable enterprises meanwhile allowing enterprises to enter into the previously suppressed sectors, which are consistent with China's comparative advantages. In China, the transition started with the privatization of agriculture, the improvement of the governance of state-owned enterprise (SOEs) through the enlargement of enterprise autonomy, the promotion of non-state enterprises that face hard budget constraints, and the introduction of a dual-track system to prices and exchange rate before their liberalization. (Lin, 2004)

Based on the gradual transition model, China opened gradually its market to the outside world, at the same time testing the efficacy of the functions of SEZs, making necessary and timely adjustments. According to Kołodko (2004), there are no doubts that a shift to true market economy was not on the agenda in China not only at the turn of the 70s and 80s, but not even yet in the 90s. It had been a long gradual process, lasting about two decades, which has brought China to the breaking point – going from the reforms of the socialist system only to a transition from outgoing socialist centrally planned system to a new open market system. Kołodko (2004) said that *“China’s economic growth and opening up, followed by continuing integration into the global economy, is indispensably linked with the systemic change oriented towards the market system, on the one hand, and export-led growth, on the other. Indeed, China’s fast growth – which brought the expansion of GDP seven-fold over last 25 years, or about fourfold in terms of real GDP per capita – wouldn’t be possible neither without gradual marketization of the economy, nor without integration with the world market during the era of ongoing globalization.”*

### **2.2.3 Other economic and development models**

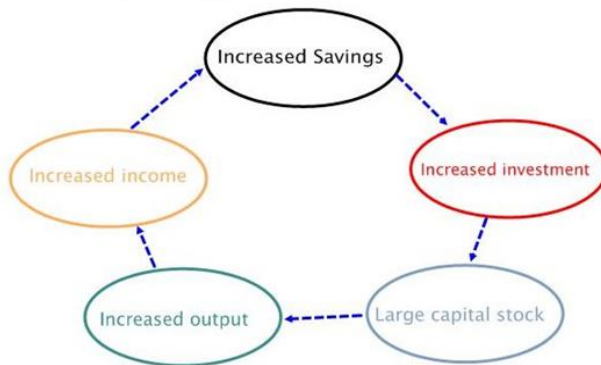
There are also other economic and development models. According to Welker (2012), growth in GDP is not the only determinant of economic development, which in order to be measured effectively must account for human welfare determinants such as life expectancy, literacy rates, child mortality rates, distribution of income, and so on. Increases in national income usually mean at least some levels of improvement in access to basic necessities for the average citizen in a developing country. Also, higher incomes mean more savings and greater access to capital for investment by entrepreneurs. More investment leads to greater productivity and rising incomes for

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those who join the emerging industrial and service sectors that usually accompany economic growth. Furthermore, rising incomes mean more tax revenue for governments, who's spending on public goods, and results in real improvements in standard of living for not just the emerging upper and middle classes, but the poor as well. Welker (2012) summarized 3 models of economic growth and development:

**Harrod-Domar Growth Model:**

Harrod-Domar Growth Model, the rationale:



*Source: Welker, 2012*

The model was developed independently by Harrod, R.F. and by Domar E. although the Harrod - Domar model was initially developed to help analyze the business cycle, it was later adapted to explain economic growth. Its implications were that growth depends on the quantity of labor and capital; more investment leads to capital accumulation, which generates economic growth. The model carries implications for less developed countries (LDCs), where labor is in plentiful supply in these countries but physical capital is not, slowing down economic progress. LDCs do not have sufficiently high incomes to enable sufficient rates of saving; therefore, accumulation of physical-capital stock through investment is low. The model implies that economic growth depends on policies to increase investment, by increasing level of saving, and using that investment more efficiently through technological advances to increase its productivity. It concluded that:

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- Economic growth depends on the amount of labor and capital.
- As LDCs often have an abundant supply of labor it is a lack of physical capital that holds back economic growth and development.
- More physical capital generates economic growth.
- Net investment leads to more capital accumulation, which generates higher output and income.
- Higher income allows higher levels of saving.

**Lewis structural change (dual-sector) model:**

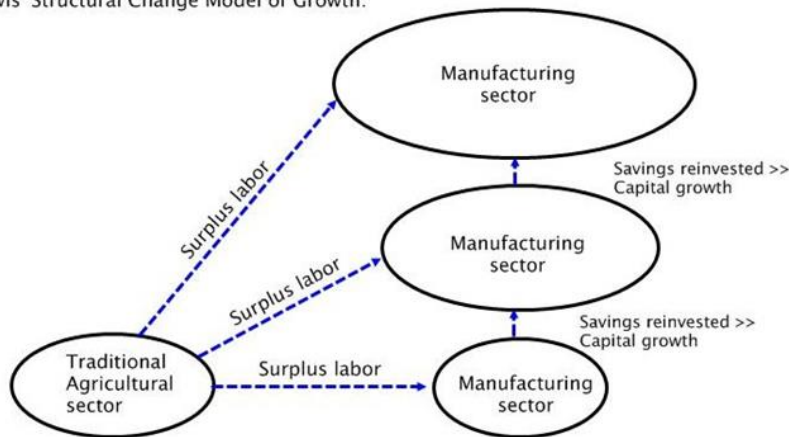
Many less developed countries (LDCs) have dual economies, the traditional agricultural sector and the industrialized manufacturing sector. The features of the agriculture in this kind of countries are low productivity and low incomes. And these two features lead to low savings and more unemployment. The industrial sector was assumed to be technologically advanced with high levels of investment operating in an urban environment. Lewis (1954) suggested that the modern industrial sector would attract workers from the rural areas. As the development level of agriculture is low, it offers more labor to the industrialized sector to earn better so that the standard of living also increases. Higher wages generate more savings and it means more investment and more capital used to increase productivity in the industrial sector. The higher productivity creates the condition to produce more in less time, meaning more surpluses for sale. It is an incentive for the workers move from low productivity agriculture to high productivity industry. The circle works in this way.

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Lewis' Structural Change Model of Growth:



Source: Welker J. (2012)

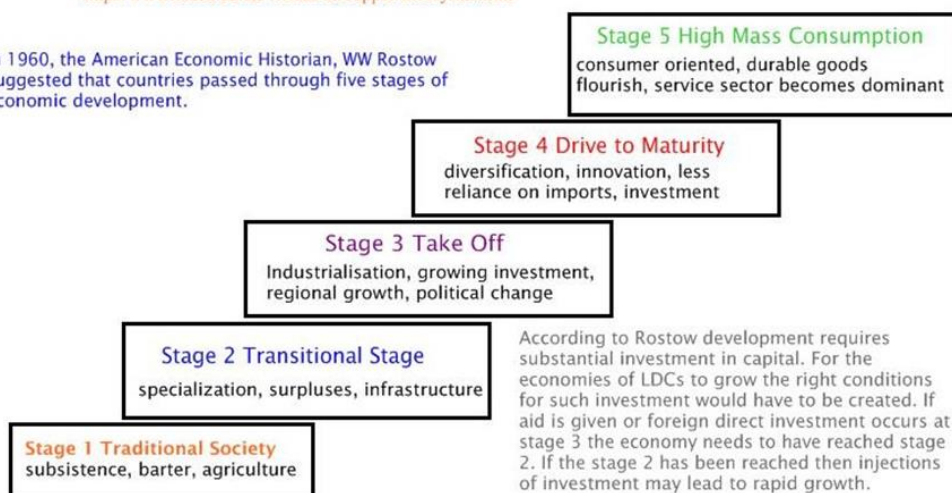
### Rostow's Model – the 5 Stages of Economic Development:

In 1960, the American Economic Historian, W.W. Rostow suggested that countries passed through five stages of economic development. According to Rostow development requires substantial investment in capital. For the economies of LDCs to grow, the right conditions for such investment would have to be created. If aid is given or foreign direct investment occurs at stage 3 the economy needs to have reached stage 2. If the stage 2 has been reached then injections of investment may lead to rapid growth.

Rostow's Model - the Stages of Economic Development

<http://www.bized.co.uk/virtual/de/copper/theory/th9.htm>

In 1960, the American Economic Historian, WW Rostow suggested that countries passed through five stages of economic development.



Source: Welker J. (2012)



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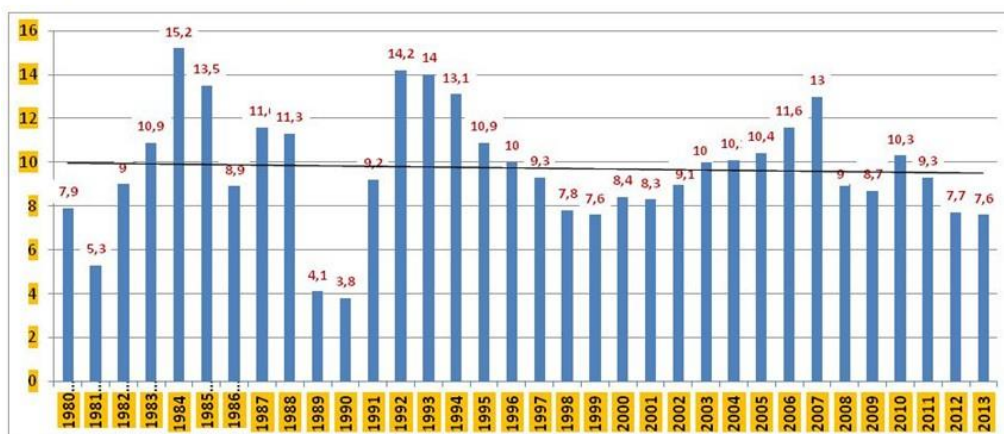
### 3. Chinese SEZ development and its outcome

As referred above the saying of Kołodko, China's fast growth in GDP, see Chart 1.

wouldn't be possible neither without gradual marketization of the economy, nor without integration with the world market during the era of ongoing globalization.

**Chart 1: GDP growth rate 1980-2013**

GDP growth rate 1980-2013 9.8%<sup>4</sup>



Source: National Bureau of Statistics (NBS) of China

In the first 30 years of fast economic growth and development, China growth rate surpasses the values registered by USA and Japan during their first 30 years of development and even the previsions which were done by the World Bank (Table II).

**Table II: Comparative Growth Rates in First 30 Years of Development US-Japan-China**

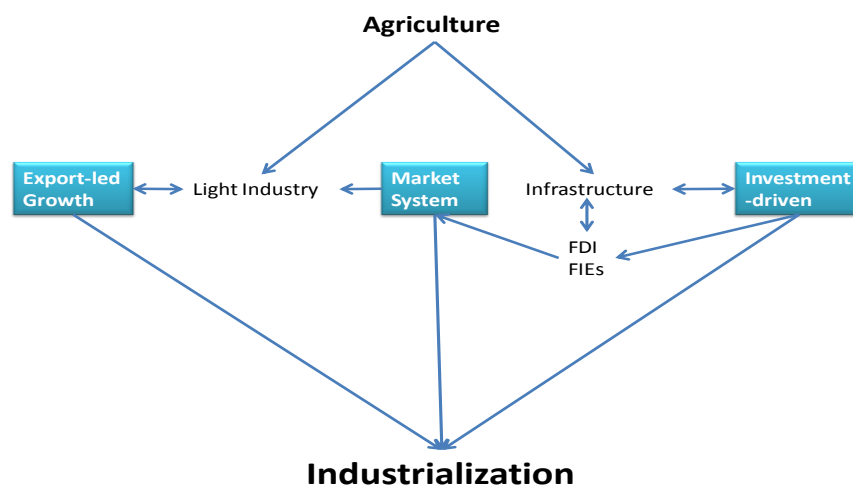
	US	Japan	China*
	1870-1900	1950-1980	1980-2010
Growth of GDP	3.9	7.7	8.1
Share of world output at outset	15.4	3.2	3.6
Share of world output at end	25.7	10.1	15.4
Change in share	10.3	6.9	11.8
Share of world exports of manufactures at outset	3.8	3.4	0.8
Share of world exports of manufacturers at end	14.7	11.2	6.4
Change in Share	10.9	7.8	5.6

Source: Adapted from World Bank Database

\* Forecast: China here doesn't include Special Administrative Region (Hong Kong and Macao), or Taiwan.

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China is historically considered an agricultural country as referred above (69% of employment in agriculture in 1980). With the gradualism as guidelines of “Reform and Development”, China opens gradually, starting by establishment of SEZs in the coastal cities south China, making test of the policy of financial, industrial and economic development. The SEZs, according to their situation and socialist modernization requirement, started the industrialization by manufacturing. So I summarized the following characteristics of the Chinese SEZ:



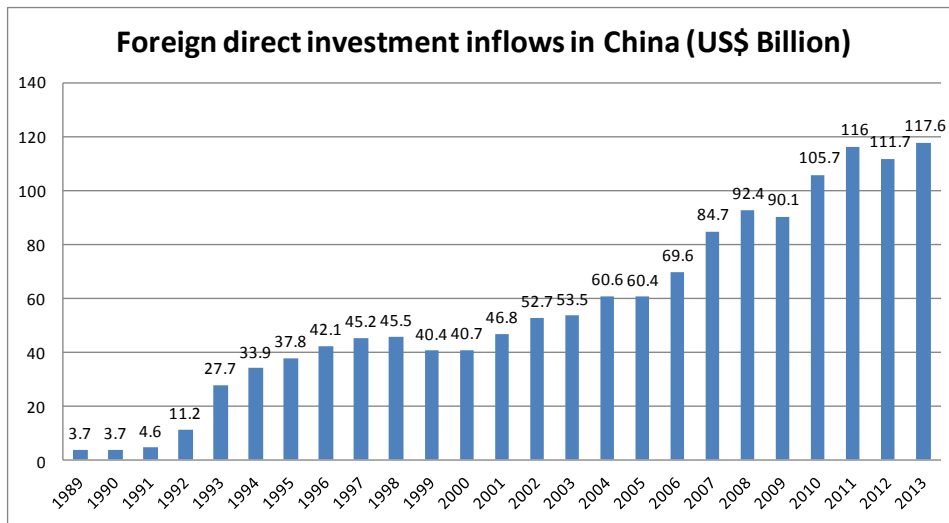
*Source: Elaborated by the author*

The objective of the “Reform and Open-up” policy is to change China from an agricultural country to an industrialized country. As China didn’t have the basic conditions to develop heavy industry then, chose to develop firstly from light industry and the infrastructure construction. It seized the opportunity of manufacturing and outsourcing service transfer from Hong Kong and Taiwan to inland China. The local government dedicated more than ever before in building infrastructure to attract more foreign investors to invest and build factories. By granting special investment incentives to foreign investors, it was hoped that an export-oriented industrial base might be created in the SEZs via foreign capital and technology. The FDI is also indispensable in

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financial support in infrastructure-building at the beginning of the SEZs. The largest recipients of FDI inflows were Brazil, China, India, and the Russian Federation in 2011, accounting for more than half of inflows to developing economies. China is the largest recipient in emerging countries and the World second following the USA (UNCTAD, 2013), see Chart 2:

**Chart 2: Foreign Direct Investment inflows in China**



*Source: National Bureau of Statistics (NBS) of China*

Besides being a characteristic of investment-driven development model, the FDI brings experience, new technologies and diaspora. Indeed, one of the key reflections from China's SEZs experience was the success in working with established foreign developers. They helped implement Chinese SEZs, at the very beginning, with their proved successful development pattern, experience and practices. This is a great help to accelerate the progress of Chinese SEZs towards the internationalization, instead of exploring all by China itself. The beginning of the "Open-up" policy relied on the help of lots of Chinese overseas. According to the data in the report of OECD in 2002 (OECD, 2002), about 80% of foreign investment in the 80's came from Chinese diasporas, of which 50% from Hong Kong, 15% from Asian countries and the rest mainly from the USA, Australia and Europe (Ilhéu, 2006). By the similarities of

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language and culture, it takes less time for Chinese diaspora investors to integrate. And for the Chinese, they have more facilities in collaborating with these kinds of Foreign Invested Enterprises (FIEs). The Chinese overseas also helped open more widely the Chinese overseas market for the export goods. The market system, both national and international, is a necessary condition for the export-led growth. Although China hasn't fully realized the objective of industrialization, the three factors: export-led growth, market system and investment-driven contributed most in the process of the realization of the objective.

Now "Made in China" is appearing much more in the daily products people use and buy around the world. As the world's largest exporter, China employs about 99 million people in manufacturing by the end of 2009 (BLS, U.S. Bureau of Labor Statistics). The manufacturing industry forms the backbone of the Chinese economy, producing 44.1% of GDP in 2004 and accounting for 11.3% of total employment in 2006 (The China Perspective).

Thanks to SEZs' great contribution to the rapid economic growth, China gains more available capital as outward FDI (OFDI), amounting to about US\$ 90 billion by the end of 2009. OECD (2008) categorizes Chinese OFDI in five types: resource-seeking, strategic-assets seeking, diversification-seeking, efficiency-seeking and market-seeking. Without securing a predictable international supply chain of oil and key metals, China's economic growth will be undermined. China also needs alternative markets to export commodities and reduce dependence on Western markets. As labor costs grow in China, the relocation of certain industries may be beneficial to its economy.

The rationale of Chinese OFDI in Africa increases from 3% by the end of 2003 to 10% by the end of 2008 (China Statistical Yearbooks Database). From January to October in

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2012, non-financial direct investment of China in Africa amounted to US\$ 1.5 billion, realizing a 17% rise year on year. Over 2,000 Chinese enterprises settled in Africa, involving various fields as agriculture, telecommunications, energy, processing and manufacturing, etc. Investment gives Africa the possibility of overcoming traditional obstacles to economic growth, namely lack of capital finance and infrastructure. China-Africa Development Fund had over 50 selected projects in 30 African countries and Special Loan for the Development of African SMEs supported over 20 projects (MOFCOM). It also reveals the Chinese investment focus change and new strategy of development. China is criticized to be natural resource extractors or new colonialism, but always adheres to the mutually beneficial and win-win situation as the guidelines.

In these years of investment in Africa, China started collaborating more and more with the local government. The development of African countries also requires more and more involvement of China. One of these involvements is to collaborate with the African countries in the establishment of SEZs. According to the strategic view of China, the locations of these SEZs have always been chosen in the infrastructure strategic locations, like Chambuchi and Lusaka in Zambia, Mauritius, Nigeria, Ethiopia and Egypt (strategic location at the cross roads of three regions: Europe, Asia and Africa). In 2009, China approved: 1) \$450 million worth of investments to establish two special economic and industrial zones in Zambia, in Chambuchi and Lusaka, concentrating primarily on copper mining; 2) the Mauritius Jinfei Economic Trade and Cooperation Zone, a manufacturing hub where garments, electronic products will be assembled. China is expected to invest up to \$750 million in the next ten years. Meanwhile China confirmed its intent to proceed with the establishment of SEZs in Nigeria (two zones, up to \$500 million investment, focus on manufacturing machineries

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and mineral extraction), Ethiopia and Egypt. In Ethiopia, China has pledged to invest \$100 million in an industrial park where electric machinery and iron works will be the main activities. In Egypt, the planned SEZ will be located in the south of the Suez Canal where China is committed to invest \$700 million (Horta, 2010). At present, over 140 enterprises has signed agreements to settle 6 economic and trade cooperation zones in five African countries set up by Chinese enterprises (MOFCOM).

#### 4. Methodology

As per the conclusions from the literature review, the following table (Table III) is intended to summarize the identified dimensions and respective indicators. The selection criteria, as we can see in the literature review, is the fact that they are considered by the author as determinant factors of success in China and the SEZs, also other economic and development models.

<b>Table III: Summary of the factors of success from Chinese SEZs and other economic and development models</b>		
<b>Dimension</b>	<b>Indicator</b>	<b>Reference</b>
Strategic location	Location	Zeng (2011), Yeung, Lee and Kee (2009)
Government commitment	Preferential policies and incentives	
	SEZ Institutional autonomy	
	Infrastructure	
Overseas diasporas	Overseas diasporas	Zeng (2011), Yeung, Lee and Kee (2009); Ilhéu (2006); OECD (2002)
Physical capital	ODA	Zeng (2011), Yeung, Lee and Kee (2009); Ilhéu (2006); OECD (2002)
	FDI	
Gradual transition	Privatization	Lin (2014); EBRD (1994); Feige (1994)
	Governance and enterprise restructuring	
	Trade and foreign exchange system	
	Banking system reform	
Shift from agriculture to industry	Share of agriculture and industry in GDP	Welker (2012); Lewis (1954)
	Agricultural labor	

*Source: Elaborated by the author*

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**Case study**

Here I'm going to study the case of Mozambique, a southern African country.

Over the past decade, the economic cooperation and trade between China and Portuguese-speaking countries, which was merely US\$5.6 billion in 2002, grew to US\$128.8 billion in 2012, with an average annual growth rate of 37%, far higher than that of the global trade for the same period. China has become the largest trading partner and largest export market of Portuguese-speaking countries. Portuguese-speaking countries have opened more than 800 companies in China, and Chinese investment in Portuguese-speaking countries is approaching US\$30 billion. China has provided a total of RMB 4 billion concessional loans to Portuguese-speaking countries in Asia and Africa, cancelled RMB 230 million mature government debts, offered zero tariff treatment to over 95% of exports from Portuguese-speaking countries in Asia and Africa, and trained over 5,000 trainees from Portuguese-speaking countries. (MOFCOM) The agricultural technology demonstration center in Angola, the national stadium in Cape Verde and other projects built by China have all become symbols of friendship between China and Portuguese-speaking countries in Africa.

Mozambique is one of the 9 members of Portuguese-speaking countries community (CPLP). China is a staunch supporter of independence and liberation movement of Mozambique in the 1960's. Mozambique Government established diplomatic relations with China on the very Independence Day (June 25, 1975). Mozambique Government adheres to the "One China" policy, supporting China's reunification, giving China firm support on significant issues. Since then, the bilateral friendly cooperative relations assumed a continuous development, in economy and trade, culture, education, etc. President Hu Jintao made a state visit to Mozambique on 8<sup>th</sup> and 9<sup>th</sup> of February in 2007,

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and signed the documents of exemption from the due debts before the end of 2005, and the construction of the Mozambique National Stadium project with Chinese aid. In January, 2010, Minister of Commerce, Chen Deming, as Chinese government envoy, attended Guebuza's second inaugural ceremony. In August 2011, Guebuza visited China, and held talks with President Hu Jintao. On 13<sup>th</sup> of May, 2013, President Xi Jinping met with Guebuza during his attendance at the 2<sup>nd</sup> Taihu Culture Forum annual meeting. The FOCAC (Forum on China-Africa Cooperation) serves as a platform to deepen the comprehensive cooperation between China and Mozambique, also other African countries.

According to the dimensions, the data will be collected through official documents and statistics, academic articles and also SEZs projects data, including its development objectives, investment structures, current status, and the short to medium term plans. The data will also be collected via interviews, to ICBC Manager, Huawei, ZTE, Cahora Bassa Dam responsible, economists and engineers in Mozambique. Because of the effectiveness and significance limitations, just two of them can be used (See the interview results in annex 1). The data collection in the SEZ terms will be mainly focused on the Manga-Mungassa (Beira) and Nacala. The results will be analyzed by verifying the propositions established according to the summary table.

**P1. Mozambique and its SEZs have strategic location advantages.** According to the study of Zeng (2011), Yeung, Lee and Kee (2009) about the Chinese SEZs, the strategic location is very important to the cities' development.

**P2. Mozambique government is committed to the development of the country and respective SEZs.** In the view of Zeng (2011), Yeung, Lee and Kee (2009), the government commitment plays a very important role in the rapid development and the



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earthshaking changes of SEZs in China, especially the preferential policies and incentives established, and the institutional autonomy of the local government. Infrastructure is also indispensable in the modernization process.

**P3. Mozambique has overseas diaspora.** According to the data in the report of OECD in 2002 (OECD, 2002), about 80% of foreign investment in the 80's came from Chinese diasporas, of which 50% from Hong Kong, 15% from Asian countries and the rest mainly from the USA, Australia and Europe (Ilhéu, 2006). So overseas diaspora are proved to be important in the development.

**P4. Mozambique has physical capital.** The Harrod-Domar model and Rostow model both indicate that more investment leads to capital accumulation, which generates economic growth. For the LDCs, the physical capital is extremely important.

**P5. Mozambique is in gradual transition.** According to Feige (1994), a transition economy is an economy which is changing from a centrally planned economy to a market economy. The transition model was proved to be successful in China. So I propose that Mozambique could also succeed with the same model.

**P6. Mozambique is in the process of shift from agriculture to industry.** Lewis suggested that the modern industrial sector would attract workers from the rural areas. As the development of agriculture is low, it offers more labor to industrialized sector. When people earn more, the industry in development asks for more surplus agricultural labor, so that makes a positive circle.

## **5. Collection and analysis of data**

I am going to verify the following propositions:

### P1. Mozambique and its SEZs have strategic location advantages

Mozambique is a privileged natural gateway to enter its bordering countries such as South Africa, Swaziland, Zimbabwe, Zambia and Malawi. There are “three strategic corridors”: Nacala (“Zambia-Malawi-Nampula-Nacala”), Beira (“Zimbabwe-Beira”), and Maputo (“South Africa – Swaziland - Maputo”), see Chart 3.

**Chart 3- Mozambique Location**



*Source: BES, 2013.*

The first SEZ is located in Nacala, focusing on oil refinery. The second SEZ was established in Manga-Mungassa, in Beira city, Sofala Province. The third corridor crosses the capital of the country, Maputo. The Manga-Mungassa could be a choice of SEZ is contributed by the following factors: a) the modernization of the coal terminal at Beira Port, inaugurated in June 2012, has equipped the port with a modern facility for reception and unloading of railcars, warehousing and loading of ships; b) the railroad line connected to the other two main strategic corridors. By the two advantages in transportation, the Manga-Mungassa SEZ grants the access to other neighboring countries, as well as their access to the outside (via India Ocean). The three main

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logistics corridors serve as the coal exports, and also promote the development of other sectors of the national economy and the link to neighboring inland countries. The ports of Maputo, Beira and Nacala are key elements in the promotion of the development of their respective hinterlands, being true potential development corridors.

**So the proposition is verified.**

**P2. Mozambique government is committed to the development of the country and respective SEZs**

After the independence of Mozambique from Portugal in 1975, it passed through difficult times without a development model or significant economic growth until recent times. To counteract the disastrous economic situation then, the government introduced a comprehensive market-oriented “Economic Rehabilitation Program” (ERP) in 1987, with assistance of the International Monetary Fund (IMF) and the World Bank. Subsequently, the reform effort was renamed “Economic and Social Rehabilitation Program” (ESRP) in 1989 to put focus on the social dimension of the adjustment effort. The FIAS report (FIAS, 2006) clearly shows many basic problems that may lead to Mozambique’s “disabling investment environment”. Problems in labor laws, land procedures, the financial sector, company laws and regulations, telecommunications, transport, corruption, etc. all beg reform. Removal of the administrative, legal and systemic barriers has been a slow process. And yet these reforms are a critical complement to effective trade policies. The Mozambican industrial policy and strategies was approved by the council of ministers in 1997. This document claims that the priority of the government of Mozambique for industry is SMEs (Small and Medium Enterprises), national entrepreneurship and diversification of productive capabilities output and exports. This document does not establish any instruments that

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would allow the government to implement its policies and mobilize the cooperation of the private sector, and the policies and strategies written have very little relevance given the general context under which industrial development takes place in Mozambique. The FIAS report also says that under the ‘standard’ tax regime, Mozambique investors face a relatively high tax burden. Although the Fiscal Benefits Code is applicable after the approval of Investor Promotion Centre, the process takes a lot of time.

The concept was approved by the Council of Ministers in March 2007. To accelerate the development of SEZs and respective EPZ the Mozambique Government created GAZEDA Office (*Gabinete das Zonas Económicas de Desenvolvimento Acelerado*, GAZEDA, in Portuguese) on 18<sup>th</sup> of December in 2007, responsible for the SEZ development, promotion, investments management, strategic plan, and projects approval. All the enterprises that operate in SEZs and EPZs have to register in GAZEDA. The first SEZ was established in Nacala in 2009. From then on, Mozambique, under the help and supervision of GAZEDA, has built the Manga-Mungassa SEZ, Beluluane Industrial Park, the Locone and Minheuene Free Industrial Zone and the Crusse and Jamali Integrated Resort. And the government approved, on 6<sup>th</sup> of May of 2014, the creation of Mocuba SEZ, in Zambézia Province. Danilo Nalá, the Director of GAZEDA, once said in an interview to *Jornal Domingo* (Jornal Domingo, 2013) of Mozambique that "China is one of the examples of success and that economic and social development in the last 30 years has been driven by the Special Economic Zones model, being currently an unavoidable reference in this field. (Translated from Portuguese by the author)". Mozambique has clearly recognized that China is an example of success for Mozambique to follow. So several groups of high leadership have visited SEZs in China, trying to learn more experience.

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Nacala SEZ aims to maximize the potential of the coastal areas. It would have an oil refinery and other processing plants, where the main objective will be to import raw materials and then process them and do the value adding in Mozambique.

The second SEZ, Manga-Mungassa, in Beira City, Sofala Province, was approved during the 18<sup>th</sup> Session of the Council of Ministers, on 29<sup>th</sup> of May in 2012, with a surface area of 217 hectares, with expansion possibilities. It is specifically directed to the area of logistics and industrial. The project includes the construction of an International Logistic Center, with the objective of maximizing the potential of Corridor Beira. The project also includes the construction of hotel units and residential villas with supporting services, as well as an industrial area under the EPZ, which will receive domestic and foreign investors for the implementation of manufacturing. The establishment process for this SEZ will comprise three phases. The “logistical arrangements” phase will comprise the construction of warehouses to store commodities and is at a final stage. The second, “operational phase”, will comprise the construction of a three-star-hotel, a village, an exhibition center, recreation areas and artificial lakes. The last phase is “Establishment of the Free Industrial Area Phase”, in which high technology units will be set in place. The Manga-Mungassa SEZ will be under the management of a Chinese private firm, the Dingsheng International Investment Company of Sogecoa Group, which plans to invest an approximate amount of US\$ 500 million (All Africa 2012, November 5<sup>th</sup>). The investment includes the construction of infrastructure, including water, power, internal roads, and industrial sheds, among others. It is foreseen the creation of over two thousand jobs for Mozambicans, while the highest percentage may be in the construction phase. (Jornal Domingo, 2013). Now the

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infrastructure and logistic arrangement phase in Manga-Mungassa is nearly completed and it is starting the operational phase.

The Integrated Investment Program (PII) approved in September 2013 identifies investments in the transport, energy and irrigation as constituting a basic priority for Mozambique. The Strategy for the Development of Transport System, currently being implemented, aims to conduct a profound transformation in terms of logistics infrastructure in the country. The capacity of the Sena Railway Line (from Beira Terminal to Moatize) is to be increased from 6 million tons per annum by 2013, to 20 million tons per annum by 2016. In the meantime, the modernization of the coal terminal at Beira Port, inaugurated in June 2012, to allow the processing of 6 million tons per annum at a cost of US\$ 200 million, has equipped the port with a modern facility for reception and unloading of railcars, warehousing and loading of ships. Equally important will be the planned repair works on the Machipanda Line, connecting Beira with Zimbabwe (BES, 2013).

Despite the large investments made and the respective results, the relative poor state of infrastructure is confirmed by the index of infrastructure development compiled by the African Development Bank, which ranked Mozambique in 11<sup>th</sup> place from the end in a set of 53 countries in 2010, similar since 2000 (Ross, 2014). Although Mozambique was the fourth country in Africa to connect to the Internet in 1994, according to the most recent survey of the national statistical office, Internet penetration as of 2007 was only 2.1 users per 100 people, reaching 3.6 in 2008 (INE).

The preferential policies and incentives, although being established, are far from sufficient. The State is giving more institutional autonomy to SEZ supporting office. In terms of infrastructure, Mozambique has the potential to become a major regional

player, but large investments are needed before playing this role. The expansion of infrastructure networks is a key component of growth and poverty alleviation program. With strong growth projected in the medium and long term, infrastructure has been and may continue to be a major obstacle to sustainable and inclusive growth. Besides, the government of Mozambique should improve the efficiency in public administration. These are all verified in the interview with two interviewees. They all emphasize that the Mozambique government should improve the efficiency and legislations. In terms of infrastructure, they all think there are lots of opportunities and there is a lot to be done to increase the infrastructure level. **So the proposition is not verified.**

### **P3. Mozambique has overseas diaspora**

Mozambique is one of the 9 members of CPLP as referred.

Macao, as a Special Administrative Region of People's of Republic of China since 1999, receive Portuguese cultural heritage during almost 500 years. China realized the importance of such heritage as well as the relevance of the business network of CPLP, and creates in Macao in 2003, the Forum for the Economic and Trade Relations between China and CPLP countries. Besides, the XII Five Years Plan of China formulated the directive of support the construction of a services platform in Macao to accelerate the commercial cooperation between China and CPLP. As an outcome Chinese government and Macao local government are always boosting the role of Macao as a service and business hub between China and CPLP. The Macao Secretary for the Economy and Finance, Francis Tam, announced, on 27<sup>th</sup> of March of 2012, the creation of the Fund for Cooperation and Development between China and CPLP with initial capital of US\$200 million, of which US\$50 million will be the responsibility of the Macao government (Macauhub). In November, 2010, Prime-Minister Ali attended

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the third China — Portuguese-speaking Countries Economic and Trade Relations Forum Ministerial Meeting held in Macao, and also had a meeting with Premier Wen Jiabao.

The President of Republic of Portugal, Cavaco Silva, during his official visit to China in May 2014, reinforced that Portugal could serve as a platform in Chinese investment in Portuguese-speaking countries, this also means that Portugal, can intermediate the options for Mozambique to access Chinese market, and attract capital investment from Chinese enterprises sources, being now also big investors overseas.

Portugal, for instance, is integrated in the European Union, having access to a market of 504 million consumers. In the first quarter of 2014 Portugal was presented as the largest foreign investor in Mozambique and that creates more jobs, the Portuguese Prime Minister, Pedro Passos Coelho, reiterated, during the visit of Guebuza in 2013 that FDI by Portugal in Mozambique totaled €130 million and created 10,000 new jobs. Payments from the €134 million credit line for business cooperation, according to Passos Coelho, are a sign of Portugal's wish to raise the awareness of international investors of Mozambique as a destination for their investments. According to Mozambique's ambassador to Portugal, José Augusto de Jesus Duarte on 30<sup>th</sup> of June of 2014, Portuguese companies have invested around US\$1.5 billion in Mozambique. (Macauhub). Recently Armando Guebuza, chose Portugal for his last official visit as State Leader, showed the close bilateral relationship and referred the relevance of Portuguese investment, encouraging them to reinforce it and mentioned that the skilled labor, normally imported by Mozambique companies especially from Portugal was welcomed.

**So the proposition is verified.**



**P4. Mozambique has physical capital**

During the past decade Mozambique has consolidated its position as one of the largest recipients of ODA in the world, with steady growth. The aid inflows into Mozambique increased from around an annual average of just over US\$ 900 million during the 1990s to an annual average of over US\$ 1.3 billion between 2000 and 2005. This volume of aid is equivalent to 22% of Mozambique's gross national income, approximately US\$ 64.4 each year per person, in a country with a GNI *per capita* of barely US\$ 31 in 2005. The donor support to the Mozambican government currently accounts for over 1/4 of total public spending. (Rodríguez, 2008)

One of the most important factors in Mozambique's FDI attracting success is the large-scale investments in the industrial sector and extractive industries, the so-called "mega-projects" (UNCTAD, 2012). They are held by foreigners, often in the natural resources sector. For example, Mozal, an aluminium smelter joint project in Beluluane Industrial Park, Maputo, is owned 47% by BHP Billiton (Australia), 25% by Mitsubishi (Japan), 24% by IDC (South Africa) and 4% by the Mozambican state (Ross, 2014). Mozambique could become the world's third largest exporter of liquefied natural gas (Rigzone, 2012).

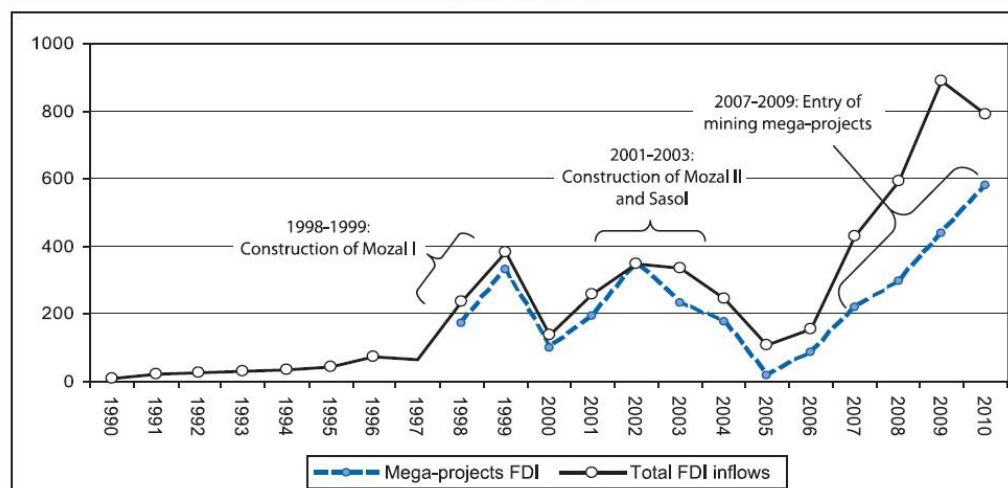
The strategic locations, later-built SEZs infrastructure, the CPLP diaspora, especially Portugal, could help introduce more FDI. Mozambique was the 6<sup>th</sup> African country in terms of attraction of foreign investment between 2007 and 2012, which grew at an average annual rate of 33% (BES, 2013). As reforms since the end of the civil war gained momentum and as the peace and security were re-established, FDI inflows began to pick up in the late-1990s. While annual FDI inflows averaged only \$32 million during 1991-1995, they grew more than fivefold to \$179 million per annum in 1996–

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2000. Although the pace tapered off, the trend was sustained during the first half of the 2000s averaging \$258 million per year and then almost doubling in the second half of the decade reaching an historical high of \$890 million in 2009, see Chart 4. Chinese investments generated in Mozambique, between 1990 and 2007, 11,214 jobs (Macauhub). SEZs established in Beira and Nacala would play a key role in attracting FDI.

**Chart 4: FDI inflows to Mozambique 1990 - 2010**

**Figure I.1. FDI inflows to Mozambique and share of mega-projects, 1990 – 2010  
(Million dollars)**



*Note: figures for 2010 are preliminary. Share of mega-projects for 1998-2000 are UNCTAD estimates.*

*Source: UNCTAD FDI/TNC database and Bank of Mozambique.*

*Source: UNCTAD, 2012.*

**So the proposition is verified.**

## **P5. Mozambique is in the gradual transition**

Mozambique is in the process of transition from a centrally-planned economy with extensive price control to a market economy since the end of the civil war. In order to reverse the negative economic situation, the Mozambican government initiated the Structural Adjustment Program in 1987, aimed to reduce state control over the economy and price controls, promote the ‘family sector’ in agriculture, improving the marketing of agricultural products, adjusting internal and external trade imbalances, liberalization of external trade, unification of the exchange rate, improving resource distribution,

reforms in the financial sector, including the liberalization of interest rates, and expanding the responsibility of the private sector in economic activities. In the process, most of the industries owned by the government were privatised. Growth picked up sharply, to almost 15 percent in 1987, and remained high for most of the subsequent years, averaging more than 7 percent a year (5.4 percent in per capita terms) over the last 24 years (IMF, 2013). The banking system was partially privatized after 1995, exchange bureaus were legalized, and measures were taken to liberalize the current account of the balance of payments. During the process of implementing the SEZs, the government also chose the gradual experiment. The first SEZ, Nacala, was implemented in 2009 and then little by little, other industrial park and EPZs.

**So the proposition is verified.**

**P6. Mozambique is in the process of shift from agriculture to industry**

The population of Mozambique is approximately 24 million, with more than 80 percent of the labor force involved in agriculture by the end of 2010 (Ross, 2014), also considered an agricultural country. And by the end of 2010, the GDP share of agriculture is 30.9% (Ulandssekretariatet, 2012). Reflecting the rapid start-up of coal production and exports, GDP grew by 7.2% in 2012 and in 7.1% in 2013 (The World Bank). The extractive industry was the fastest-growing sector (by 39.25%), while the transport and communication sector also performed strongly (IMF). Transparency in the natural resource sector is tantamount for good economic management and confidence. The government commits to continue to implement a best-practice framework to improve the transparency of the natural resource sector. The contribution of coal and gas to foreign exchange earnings are expected to increase considerably over the medium to long-term. Over the past decade, the Mozambican government has encouraged the so-

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called megaprojects by offering generous tax incentives. As a result, these projects – most notably the Mozal aluminium smelter and hydropower generation at Cahora Bassa – have made significant contributions to economic growth and investment, especially during their construction phases. IMF estimates that during 2003-10, megaprojects contributed four percentage points to the growth in value added in the economy.

**So the proposition is verified.**

## **6. Conclusion, limitations and suggestions for future studies**

### **6.1 Conclusion**

After analyzing the situation of SEZ in China and verifying other economic growth and development model, I summarized the characteristics of Chinese SEZ: In the gradual transition from agriculture to industrialization, turning to market system, depending on export-led growth and investment-driven, developing infrastructure with FDI, and then light industry for export. From the comparison of Mozambique's actual conditions with Chinese proved successful factors of SEZ and factors from other economic growth and development models, we can see that most of the factors in Mozambique are in line with those of China and other development models. Obviously proved in the results of the analysis, Mozambique is strategically located. Mozambique's east-west transport infrastructure is well-developed as seen in the chart 3 the three transversal strategic corridors. But the north-south transport connections, the water system, and hydroelectric generation grid have to be properly developed to meet actual and potential needs. Although the central state is giving more institutional autonomy to the special economic zones than before, the efficiency and preferential policies are urged to be improved. In terms of overseas diaspora, official development assistance, foreign direct investment, Mozambique is privileged. As observed from the data, the agriculture is still

dominant in the contribution to the country's GDP growth, but it is in the gradual transition from centralized planning system to market system, and from agriculture dominant to industry, being export-driven and capital intensive especially in the extractive industry. With more government attention and commitment in the preferential policies and incentives, public administration and more investment in construction and maintenance of infrastructure, the actual situation would be improved for sure. So I conclude that Mozambique and its special economic zones have most of the factors of success of the Chinese SEZ model and other economic development models. And these factors will lead Mozambique's SEZ and the country to a greater success.

## **6.2 Limitations**

During the study, I identified some limitations, specifically regarding to the collection and analysis of data. First, the case study in the context of Africa is limited to Mozambique, so that the conclusion cannot be generalized to Africa. During the phase of interview, some people indicated have just arrived in Mozambique and don't know so much about the country. Even those know more, are not willing to reveal their names and some detailed information.

## **6.3 Suggestions for future studies**

In further studies it would be interesting to verify these factors in other African countries, or at least other Portuguese-speaking countries like Angola, Guinea-Bissau, Cape Verde and Sao Tome and Principe. It would also be interesting to make a further case study of one of the SEZs in Mozambique.

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**Annex 1: Interview results**

Questions	Answer A	Answer B
- First time in Mozambique - Last time in Mozambique	- August 2011 - May 2013	-2008 - August 2014
Mozambique has made a great difference as from your first impression?	Yes. I thought it must be extremely difficult to communicate with the local people. But their Portuguese is good and a lot of young people preferred to practice English with me.	Yes. A general increase on investment on mineral resources evaluation/production together with cost of living increase.
Are Mozambicans friendly to Chinese investors?	Yes. The Mozambicans are very friendly to all the Chinese people, not only the investors. Most of them agree that the foreign investor will bring more positions and opportunities.	Generally yes
Can you talk a little about your impression about the SEZs Beira and Nacala?	The port of Beira is expected to post annual growth of 15% in processing cargo and definitely one of the most important deep-water harbors around all southern African countries. The trains carrying coal from Moatize in Tete to Nacala coal terminal will be a fantastic chance for Nacala.	N.A.
What is your opinion about the preferential policies of Mozambique?	The preferential policies are not so important when compare to the infrastructure things, such as logistics, etc. I just hope the local government could be more efficient.	They very friendly, but procedures life-cycle remain uncertain
What is your opinion about the infrastructure construction in Mozambique?	Mozambique is one of three of the main foreign investment destinations in Africa and over the next few years it is expected to attract more than US\$32 billion in the infrastructure area. I have to say the volume of infrastructure construction there depends on the process of Oil & Gas exploring. If the exploring result is positive, the whole country will attract billions of investment instantly and surely parts of them, which the amount is also huge, will be put in the construction area.	There are a lot of opportunities to increase the level of infrastructures needed, like energy, transports, health and education. Tenders procedures and permission need more efficiency and faster results, as well as stable but clear legislation regarding services targets, rules and remuneration.

A: Manager of ICBC African Republic Office - Chinese

B: General Director and TSO (Transmission System Operator) - Portuguese